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Money Laundering

How to beat the money launderers

Banks must work with governments to combat this scourge

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When it comes to money laundering, the criminals are winning. More than $1tn of illicit financing moves through the financial system each year. Only 0.2 per cent of those proceeds are seized by authorities, making the financial crime industry the largest and most profitable in the world.

Since money laundering enables pernicious crimes such as bribery and corruption, human trafficking and terrorist financing, it is essential for banks to improve their detection and reporting of suspicious activity to law enforcement. Such efforts are under way but they require broad public and private support to transform the financial system into a hostile environment for criminals and terrorists.

At the centre of the problem — and the solution — are "suspicious activity reports", which are filed with the government when a bank suspects that funds are the proceeds of criminal activity. Various factors have had the unintended consequence of banks promoting the quantity of SAR filings over their quality.

The UK and US have experienced huge increases in SAR filings in the past decade. These may protect banks from regulatory sanctions that carry massive fines and costly remediation programmes but they do not help fight financial crime as law enforcement struggles to find the signal in the noise.

This defensive approach has caused many banks to end relationships with broad groups of customers who, as groups but not individuals, might be considered more risky — simply because of their location, for example.

The result is felt by those most unprepared to deal with its impact: innocent citizens in parts of the world whose future depends on access to mainstream financial services. The International Monetary Fund made the withdrawal of banks from emerging markets a major issue at its annual meeting in October.

To focus financial crime compliance efforts more effectively on the most serious suspicious activity, the SAR framework needs to be transformed into a technologically based, cost-effective model for the 21st century. Fundamental to this change is a paradigm shift that aligns banks, bank regulators, law enforcement and the public.

Several global banks are working with UK and US authorities to develop a new model for discovering and disrupting financial crime built on three core principles. First, banks will be far more effective at identifying and reporting suspected financial crime if they share information rather than acting on their own as they do now. We know that money launderers take advantage of these silos by using different banks for different parts of their schemes.

Second, by partnering with technology companies, banks can more efficiently and effectively identify suspicious activity. Third, financial intelligence is most robust when information flows between the public and private sectors. In the case of human trafficking, for example, presentations by leading non-governmental organisations and government enforcement agencies have improved the banks' ability to detect potentially related financial transactions. In turn, they have helped law enforcement disrupt trafficking networks.

In pilots, this model has demonstrated that combined identification and reporting of financial crime is more likely to be used by law enforcement and more likely to lead to the disruption of criminal enterprises. The financial industry, regulators and law enforcement should work together. After all, we share the same goal: to stop financial crime from being the most profitable industry in the world.

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